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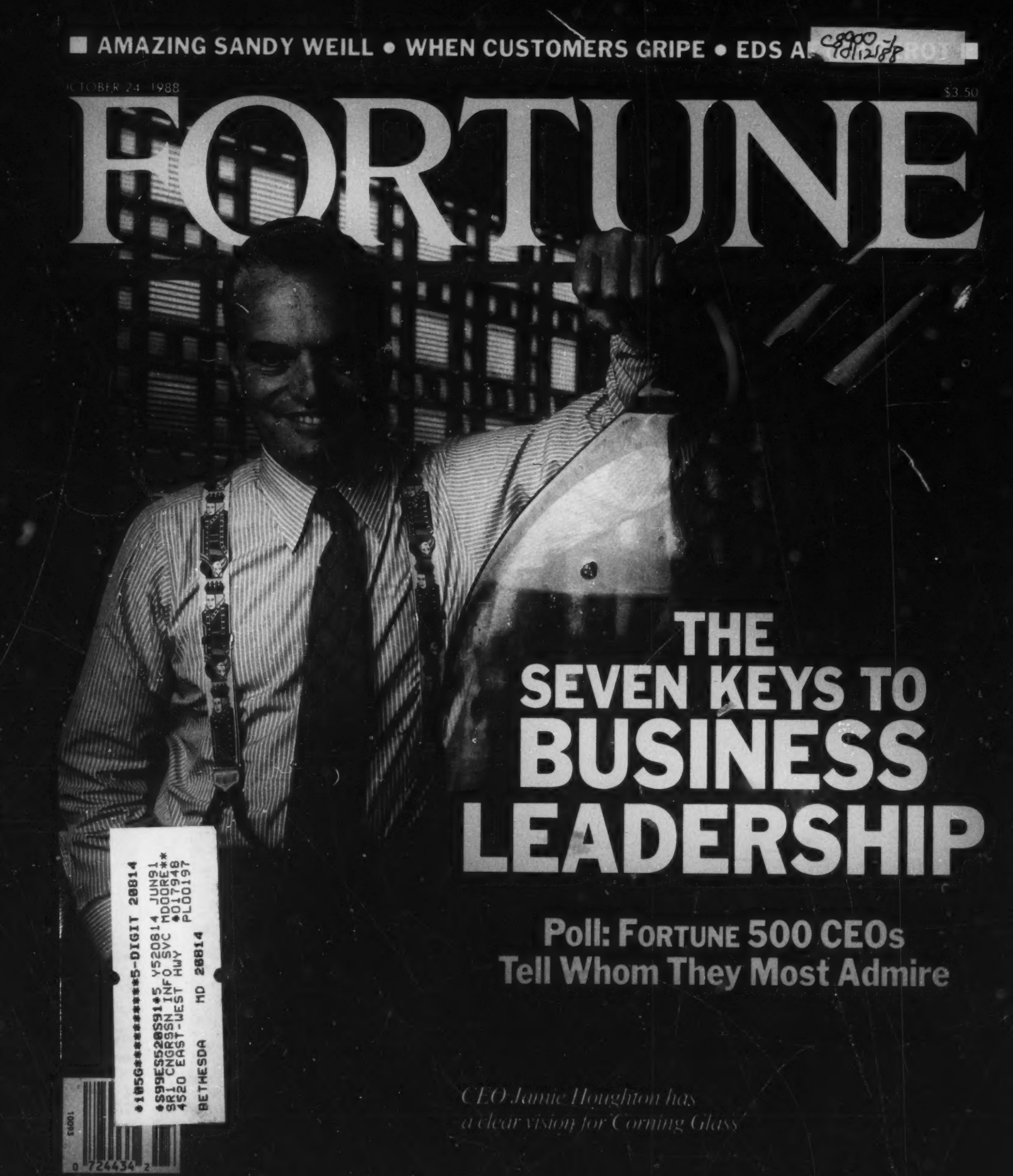

THE SEVEN KEYS TO BUSINESS LEADERSHIP

Poll: FORTUNE 500 CEOs Tell Whom They Most Admire

CEO Jamie Houghton has a clear vision for Corning Glass

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HANS NELEMAN

Leaders shake things up, which may be one reason we don't have more of them.

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COVER: Jonathan Levine photographed Jamie Houghton at the Corning Museum of Glass in Corning, New York.

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He made his name buying damaged companies on the cheap and building them into a retail brokerage firm that he sold to American Express for $1 billion. Now, with his recent buy of Primerica and its Smith Barney subsidiary, Sanford Weill is fashioning a financial services powerhouse the same way. *by Julie Connelly*

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EDITOR'S DESK

ARE YOU UPSET? Angry? Apoplectic? Did that $499 whatzis go on the fritz as soon as you got it home? Will Whatzis Inc. fix the thing? Will Whatzis Inc. answer the phone? Does anybody at Whatzis Inc. give a rat's whisker?

Somebody better! Corporate America is getting the message that the fastest way to lose out to the competition is to ignore customer complaints. For the article beginning on page 88, writer Patricia Sellers tracked companies that pamper unhappy customers and those that disregard them. Her conclusion: Giving consumers an outlet to voice their grievances increases brand loyalty and raises profits. Even if a company can't satisfy the customer, just lending a sympathetic ear can win it a friend.

ALICE RESSEGUIE

Patricia Sellers is not the complaining kind.

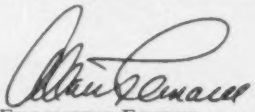
Having covered marketing since she joined FORTUNE four years ago, Sellers noticed a common thread of success connecting Anheuser-Busch, Kellogg, Liz Claiborne, and other industry leaders she has written about. These companies focus intently on their customers' desires and spare no effort trying to satisfy them. Until she came across a study showing that money invested in complaint handling earned fat returns, however, Sellers had not thought much about that aspect of customer service.

She began her reporting by asking friends, relatives, and colleagues to relay personal experiences. Horror stories flowed in about mail-order houses. The most positive responses involved credit card companies. Her cousin, for example, visited a seaside inn where he found the accommodations abysmal. He complained to American Express, which investigated and canceled the charge.

Though she has had her share of shabby treatment from airlines and hotels while traveling on assignment, Sellers tends not to complain. "I would be so aggravated," she says, "that I just wanted to forget the incident." She did squawk when she found cigarette ashes all over a table in a Cincinnati hotel room supposedly reserved for nonsmokers. The cordial letter she received from the Westin Hotel management charmed her: "I just appreciated getting a response that was not a bill."

While we wish it weren't so, FORTUNE is not immune to complaints from our readers, and we have stepped up efforts to resolve them. "In the past it was an area we had not emphasized with enough vigor," says publisher Jim Hayes. "Now customer satisfaction is a major strategic goal." We bought new computers to better handle the more than two million pieces of mail (subscription requests, payments, inquiries) we receive a year and to cut the time it takes to respond. All order forms have been revised to clarify subscription offers. One day soon you may hear from our circulation staff, which is developing a system to regularly telephone subscribers to ask how they rate our service. So far, our efforts have reduced the number of customer complaints substantially.

If you have a problem, please tell us. We want to keep your business.



EXECUTIVE EDITOR

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THE NO. 1 LEADER IS PETERSEN OF FORD

He tops the list of effective commanders cited by America's major CEOs. Most think their lieutenants will be ready for the Nineties—and at least as good as they are. ■ *by Kate Ballen*

WHOM DO America's top business leaders consider the most effective members of their brotherhood? When asked in the latest FORTUNE 500/CNN Moneyline CEO poll, executives mentioned more than 100 names. The winner, Ford Motor chief Donald E. Petersen, was a bit of a surprise, considering the vast amount of favorable publicity that has surrounded Detroit rival Lee A. Iacocca—whom Petersen beat by five votes. While these results suggest that no U.S. business chief currently towers above his peers, the outpouring of names is consistent with the poll's finding that eight out of ten CEOs consider American business in good hands. This sanguine bunch is also nearly unanimous in believing that their companies are bringing along at least as many productive leaders as a decade ago. Don't worry about finding natural-born leaders; these CEOs think it's possible to teach what it takes.

An independent opinion research firm, Clark Martire & Bartolomeo, conducted the survey from September 14 to 23. The respondents were 206 CEOs of FORTUNE 500 and Service 500 companies.

In voting for the most effective business leaders, the CEOs named a troika: Petersen, Iacocca, and GE's Jack Welch. After those three the number of votes for any candidate fell off sharply; another drop followed No. 10, Johnson & Johnson's James E. Burke. A significant number of CEOs (27%) didn't nominate anyone to the roster. Lawrence O. Kitchen of Lockheed probably speaks for many in this group when he says, "I don't want to shortchange anyone. Iacocca is obviously an effective leader, for example, but I know there are so many others out there who just don't have that publicity."

Q **Whom do you consider the most effective leaders in U.S. business?**

A

Don Petersen, Ford	**25%**
Lee Iacocca, Chrysler	**23%**
Jack Welch, GE	**20%**
John Reed, Citicorp	**11%**
John Akers, IBM	**11%**
Roy Vagelos, Merck	**7%**
Charles Knight, Emerson	**6%**
Ken Olsen, DEC	**5%**
John Young, Hewlett-Packard	**5%**
James Burke, J&J	**5%**

Total exceeds 100% because of multiple answers.

A few CEOs seemed to have the opposite problem—thinking of anyone to mention. One cited the head of Alcoa but couldn't recall his name (it's Paul H. O'Neill); another had the same trouble remembering who runs Monsanto (Richard J. Mahoney). Two CEOs nominated Walter B. Wriston, even though he retired as chief of Citicorp in 1984. One cited Drew Lewis of Union Pacific, but another cited Drew Lewis of Warner Amex, a company Lewis left two years ago. And one chief nominated AT&T's James E. Olson, who died last April.

On the whole, of course, the CEOs are well acquainted with their counterparts, almost always referring to them familiarly—as Stan Gault of Rubbermaid, for example, or Larry Rawl of Exxon. The overwhelming majority (84%) say U.S. business does not face a leadership crisis, and they often cite this familiarity in explaining their views. "The colleagues I know have the qualities, intelligence, desire, and ability to move industry ahead," says Roger W. Johnson of Western Digital, a supplier of computer components. While many consultants and scholars worry that today's business chiefs aren't up to such challenges as global competition, takeover attempts, and restructurings, the CEOs interviewed often argue that these problems are making them tougher, more seasoned leaders. Says Stephen D. Hassenfeld of Hasbro: "It always takes events to push people."

"The more my company grows, the more important I realize it is to spend time nurturing future leaders."

BRUCE E. KARATZ
Kaufman & Broad

"The leadership today isn't addressing the emerging world markets and competition."

JOHN O'BRIEN
Grumman

The CEOs of highflying companies are especially confident about the state of business leadership. Says Jack Twyman of Super Food Services, a distributor whose profits have more than tripled since 1980: "American enterprise has never been stronger." Howard P. Allen of Southern California Edison runs a standout utility in a sometimes troubled industry. "Sure, you have a number of utilities that are in financial difficulty with nuclear plants," he says. "Maybe the managers haven't done as good

REPORTER ASSOCIATE *Charles A. Riley II*

Q **Some expert critics claim there is a leadership crisis in U.S. business. Do you agree or disagree?**

A

Agree	12%
Disagree	84%
Not sure	4%

Q **Does your company employ as many effective leaders today as it did ten years ago?**

A

Yes	97%
No	0%
Not sure	3%

Q **Can effective business leadership qualities be taught?**

A

Yes	73%
No	10%
Some can, some can't	7%
Not sure	10%

a job as they should have, but the majority of utilities are in good shape charging reasonable rates to the public."

So why the talk about a business leadership crisis? Ask these CEOs and some of their responses verge on the passionate. Says Stanley M. Howe of HON Industries, an office furniture manufacturer: "Seldom does television show business leaders in a good light. We always seem to be characterized as crooks." Richard H. Deihl of savings and loan holding company H.F. Ahmanson adds, "We've got better management than ever. They may not be so visible, but it's more because they're afraid of what the media will do to them." Other CEOs chalk up the criticism to human nature. "People just like to criticize," says Edmund T. Pratt Jr. of Pfizer. Or as Edmund M. Carpenter of General Signal says, "It's always traditional to have curmudgeons say there's no one to lead us."

"In American business, if leaders don't become public personalities, then sometimes they are considered ineffective."

JOHN H. BRYAN
Sara Lee Corp.

Some of those curmudgeons are in executive suites. Of the CEOs polled, 12% believe U.S. business does face a leadership crisis. Among the reasons: managers' inability to compete in a global economy, too much focus on short-term results, and insufficient investment in plants. "The rest of the world is passing us by," says Kenneth W. Perry of American Petrofina. "I don't see any emerging leaders with the guidance to see us through the 1990s." Even optimists might shudder at what lies ahead after hearing W.R. Grace's J. Peter Grace: "I've been in business through the Thirties, Forties, Fifties, Sixties, and Seventies, and I have never seen such rapid-fire and pressure-filled changes in technology, in tempo of workplace, and in business fundamentals as in the past eight years or so. We do not have a big supply of the quality of leadership required in this new, competitive, global environment."

Nearly all the CEOs polled, 97%, think the quality of leaders in the pipeline is terrific. They say their companies employ as many effective business leaders as ten years ago, and 40% volunteered without any prompting from the pollsters that they think their companies have *more* effective leaders than a decade ago. "The young people we continue to attract are more intelligent, interesting, and willing to work than their predecessors," says Jerry V. Jarrett of Ameritrust. Observes David H. Swanson of Central Soya: "There are more quiet, more efficient people. There's more production and less flash."

COMPANIES THAT have been liberated from regulation see a particularly dramatic change. John C. Canepa of Old Kent Financial says, "When we were a highly regulated industry, being a banker was a no-brainer. The government made all the decisions for you. Now, because we've grown so much, we've decentralized and diffused management. There are leaders at every level." CEOs that have rethought corporate values also believe they have produced stronger leaders. "My company has more effective leaders as we've promoted the importance of long-range thinking," says Josh Weston of Automatic Data Processing. Adds William J. O'Brien of Hanover Insurance: "Building a company on vision and value fosters better leaders."

Almost three out of four CEOs agree that effective leadership can be taught. They cite rotating assignments, internal training, and increasing responsibilities as important schooling. "If you are born with reasonable skills, a real leader can emerge," says Hassenfeld of Hasbro. Arnold B. McKinnon of Norfolk Southern ebulliently explains how leader development has progressed at his company: "We've got a group of younger people coming along who have had a higher level of experience than we had, who were given major responsibility sooner than we were, and who are better prepared to take over." Lawrence Kitchen of Lockheed will retire this year and is spending his last few months on the job preparing his successor, Daniel M. Tellep. Says Kitchen: "One of a CEO's primary duties is to develop people who can move into the leadership position."

"Any CEO who has lived through the oil crisis . . . restructuring, or high inflation is either dead, retired, or tough enough to live through the next issues."

PIERSON M. GRIEVE
Ecolab

And by the way, just what does leadership mean? Some of the CEOs polled grow impatient when discussion lingers on the intangibles. Twyman of Super Food says, "You can cut through all the malarkey—performance is what determines whether you are effective." Raider Irwin L. Jacobs of Minstar concludes somewhat ominously: "Sooner or later, if a leader is not performing, it catches up with him. Shareholders no longer stand ineffectiveness." F

RETAILERS FLY INTO HYPERSPACE

The French created hypermarkets, and U.S. merchandisers wish they had kept them home. But consumers seem to like this jumbo addition to an already overbuilt industry. ■ *by Bill Saporito*

SOMETIME in the mid-1990s Americans will have just two gargantuan emporiums in which to shop. One will be east of the Mississippi River and one west, each extending over hundreds of miles and numerous states. Orange juice? "Just make a left at Wichita, ma'am; it's on the first aisle in Oklahoma."

Shoppers now traveling through the Bunyanesque, get-it-all-here stores known as hypermarkets already have the feeling. Consider: The establishment in northeast Philadelphia run by the French company Carrefour encompasses 330,000 square feet. That's enough for half a dozen football fields, give or take a hockey rink. To march up and down every aisle in pursuit of groceries, apparel, and other general merchandise involves a stroll of a mile or so.

REPORTER ASSOCIATE *Mark Alpert*

Does retailing really need stores this size? Do we need the exercise? The candid response of most American retailers is "of course not." The amount of retail mall space dedicated to each person in the country has nearly doubled in ten years to about 14 square feet. There are already far too many stores for the available business, but that won't stop the big guys. Once in place, their tactic is to absorb so much business at one location as to prevent anyone else from coming in. There are only half a dozen hypermarkets currently operating and another dozen on the drawing boards. But they have the potential to change the way consumers shop for everything from soup to tires and to drastically alter the retail landscape in large and small cities alike.

Shoppers stand to gain because the hypermarket is a more efficient retail engine. Since the engine weighs a ton and costs a bundle, hypermarkets play to the strengths of big store operators like K mart, Wal-Mart, and Super Valu. Wal-Mart, run with revivalist fervor by Arkansas billionaire Sam Walton, is now singing hallelujah about the company's two Hypermart USA stores in the Dallas area, run in partnership with Cullum Cos., a well-known Texas grocer. The marts are shoving merchandise through the checkouts at the rate of $130 million to $150 million yearly, double that of any large discount store. "The volume was beyond our wildest expectations," says

Everything but the kitchen sink

Tom Hairston, president of Cullum.

Hypermarkets were created by French merchants after World War II out of a need for efficient distribution among the ruins. Companies like Auchan, Carrefour, Euromarché, Leclerc, and Promodes then expanded across Europe until they ran out of room. Four years ago the French looked west toward the States. A partnership called Hyper Shoppes that includes Super Valu, French real estate developers, and Euromarché opened Bigg's in Cincinnati. "The Europeans see the U.S. as the last oasis of unfettered free enterprise," says Peter Monash, a retailing consultant who has worked both sides of the Atlantic. He expects blood to run in the streets when the giants meet head-on.

Super Valu, the nation's second-biggest grocery wholesaler, initially tried persuading its partners to open a franchise of its low-cost Cub Foods supermarkets. The French insisted on selling general merchandise, too. *Voilà* Bigg's. Although sales averaged $1.5 million a week, nearly double the volume at a Cub store, profits were nonexistent. Consumers who loved the low food prices weren't buying much else. After the company made adjustments in its general merchandise, consumers adjusted their shopping habits. Now profitable, Bigg's opened a second location in the Cincinnati area this year. Denver is next.

Super Valu, which also owns the ShopKo discount chain, will go solo with its own hypermarket version, called Twin Valu, in northern Ohio next year. K mart will open a hyperstore called American Fare in Atlanta in early 1989 in partnership with a regional grocer, Bruno's Inc. Carrefour, with 115 hypermarkets in Europe and South America, opened its Philadelphia store last February and plans another store on Long Island. Auchan, operator of 50 hypermarkets and other retailing ventures in Europe, will debut in Houston and Chicago.

Until recently Americans have been reluctant players in the hyper competition because of the strong presence here of large supermarkets and discount stores, and even combinations of the two. While hypermarkets also include elements of supermarkets and discount stores, there are distinct differences. The ceilings are high, but in contrast to warehouse stores, the shelves don't rise much beyond seven or eight feet, giving hypermarkets the vast, see-it-all look of a discount store. The grocery aisles are designed for efficiency: Canned goods are usually sold from their cut-open cartons. Along the perimeter, however, shoppers can buy items normally sold in fancier stores: lobsters, croissants, and tortellini salad. A battery of 60 checkout lanes stands in broad testament to the stores' sales ambitions. Many hypermarkets are so big that stock clerks wear roller skates to get around.

The merchandise, market position, and operating economics of hypermarkets are unique and decidedly risky (see table). A typical discount store carries 80,000 items,

These are a few of the 57 registers at a Bigg's hypermarket in Cincinnati. The Franco-American partnership runs two marts and has another planned.

from screws to sledgehammers, and a big supermarket stocks 30,000. A typical hypermarket will lay in a maximum of 50,000 items. The stated strategy is to have on hand the products that represent 80% of consumers' regular needs and to avoid specialty or slow-moving items in all categories. That means, for instance, stocking golf balls but not golf clubs, refrigerators but not trash compactors, and only the six best-selling flavors of yogurt.

No one is sure what combinations of goods and service produce the most sales, and several of the foreign firms have struggled to find out. Bigg's, for example, had too many similar items at different prices. It did not make money until it simplified pricing to help consumers focus on value and discontinued merchandise, like suits, that required a large inventory and personal selling. According to trade reports, Carrefour may be having similar problems.

The distinction that Bigg's and others are trying to draw between themselves and discounters is that hypermarkets are not blue-collar stores. Says Pierre Wevers, executive vice president of Hyper Shoppes: "What one usually calls discount is downscale merchandise. The hypermarket doesn't do that." In fact, the merchandise is distinctly tailored to attract the middle- and upper-income crowd. A discount store's focus on value is represented by an absolute low price: $8 store-brand jeans. Those won't fly in hyperspace. Only brand-name apparel will do—Guess Jeans, for instance, or Arrow shirts, at prices lower than those of any other competing store. At the same time, hypermarkets avoid being too fashionable because the inventory requirements and risks are too large.

Operators of hypermarkets may be cashing in on what some analysts see as a division of stores into two types. The first is the niche store that concentrates on specialized

At Hypermart USA's first store in Garland, Texas, clerks were spending 400 hours a week just collecting carts in the parking lot.

merchandise—say, high-fashion apparel for career women. Typically, the merchandise is expensive and makes a personal statement about the buyer. The second category is ever larger but fewer retail outlets for items that can be classified as commodities: food, basic apparel, housewares. Consultants refer to the concept as "the polarity of retail trade." Linda Hyde of Management Horizons, a Dublin, Ohio, consulting firm owned by Price Waterhouse, says hypermarkets are trying to move more items toward the commodity end of the pole.

THEY ARE also taking the cost structure of big stores to new lows. Their magnet is bargain-priced food. Although it fills only 40% of the space in most hypermarkets, food represents 60% of revenues, mainly because it sells at a gross profit margin of 10%, less than half the figure at a traditional supermarket. The gross profit margin for the entire store is about 15%—ten percentage points below the discount or supermarket range. (An item that costs $1 must sell for $1.18 to achieve a 15% gross.) Similarly, the labor cost must be about 5% of sales, half what a typical K mart spends on labor.

These kinds of operating standards, difficult in their own right, create huge logistical challenges given the size of the stores. Says Larry Parkin, executive vice president of K mart: "If you blow it, you are going to blow it big." Running 60 checkout lanes—a $600,000 investment—and stocking the floor require a staff of 600 to 700, most of whom are part time. That's a scheduling nightmare only a computer can figure out. And, of course, about 50,000 real live customers stream through the store each week. What a pain. At Hypermart USA's first store in Garland, Texas, clerks were spending 400 hours a week just collecting carts. (The solution: Charge a deposit, payable when the carts are returned to the corral.)

The size-is-all game has implications for the rest of retailing. Supermarket chains such as Kroger, whose standard for new stores was 44,000 square feet in 1983, now go as high as 69,000 square feet. The new stores become profitable in half the time of earlier models. Accordingly, Kroger plans to build fewer but bigger stores. (Those plans may change; see News/Trends.) K mart is launching a sporting goods chain called Sports Giant, whose 50,000-square-foot size will make it a center to the competition's guards.

Even in its traditional discount business K mart thinks bigger is better. On average, an 80,000-square-foot store outperforms one of 40,000 square feet. And in communities where a 40,000-square-foot K mart used to do quite nicely, it will do no more. Says Parkin: "You can have a small store in the right community and have no competition and do gangbusters, but that's not going to continue. Somebody's going to put in a bigger store."

That other somebody might be Wal-Mart. Mr. Sam has signaled his intention in Washington, Missouri (pop. 18,000). Washington used to have a 50,000-square-foot Wal-Mart. This year Sam replaced it with a 120,000-square-foot edifice called Supercenter. It's a hypermarket for Main Street. Wear comfortable shoes. ■

MACROECONOMICS: HOW RETAILING'S HYPERSIZED LOOK STACKS UP

Store	Size (square feet)	Weekly sales	Items stocked	Gross profit margin	Customers per week	Average purchase	Labor cost (% of sales)	Inventory (annual turns)
Hypermarket	200,000	$1,750,000	50,000	15%	50,000	$35	5.0%	13
Wholesale Club	100,000	$1,000,000	4,500	11%	14,500	$70	4.5%	16
Discount Store	65,000	$150,000	80,000	28%	9,500	$16	10.0%	4
Supermarket	39,000	$250,000	30,000	24%	15,500	$16	12.5%	26

SOURCES: WILARD BISHOP CONSULTING, CHICAGO; DR. GERALD ALBAUM, UNIVERSITY OF OREGON; THE WEITZ-WHITFIELD GROUP, DALLAS